SOUTH CAROLINA RETIREMENT SYSTEMS UPDATE

The South Carolina Retirement Systems would like to address recent misinterpretations stating that the Retirement Systems just discovered a $420 million "accounting error".

The Retirement Systems' **accounting** records and financial statements are based on actual historical transactions and are audited each year by an external, independent auditor. There are no errors, mistakes, or misrepresentations in the Retirement Systems' financial accounting records or published financial statements. Nor has the system lost $420 million.

The $420 million referred to in media reports is contained in an independent **actuary's** projection. Each year, by state law, an independent actuarial firm conducts an annual actuarial valuation of SCRS. Unlike a financial audit of historical records, an actuarial valuation is conducted using the historical financial and demographic data for each person in the system to project expected future benefits for each person. These long-term projections are generally forecast 50 to 60 years into the future until all members of the system have passed away. One of the most complex calculations performed by actuaries is the projection of the present value of expected future benefits. This process involves hundreds of thousands of sub-calculations, all conducted through the scientific actuarial process.

The Internal Revenue Service established an acceptable tolerance of 5 percent between actuaries in calculating the present value of future benefits. The difference between the former actuary's calculations of the total projected present value of expected future benefits ($29.4 billion) is less than 1.5 percent from the current actuary's projections ($29.8 billion), well within the IRS-established acceptable standards. It would be highly unlikely that a difference of this percentage could be detected by someone who is not an actuary. The $420 million actuarial adjustment, along with another change that positively impacted SCRS, had a net result of increasing the unfunded liability of SCRS by one year (from 27 to 28 years).

This actuarial error does not and would not change the action taken by the Budget and Control Board in granting a 1.6 percent retiree COLA effective July 1, 2004. Even with the new projections, under the Statute the Board could have granted the COLA because SCRS was still able to absorb the cost.

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